



Review of China Readiness for Outsourcing

By Marty Pine

After 20 years of providing outsourcing from the buyer, provider and advisor roles, I recently had the opportunity to visit China and see how China is positioned in the outsourcing space. The easiest comparison is to compare China to India. In our opinion China is positioned where India was in 1995. If China applies itself it can catch if not pass India by 2015 or certainly no later than 2020. The question is how China gets there and is there enough will power and knowledge to overcome the challenges outlined below. I was taken by the people of China and the potential opportunity.

1. Individual Companies and Software Parks are Trying to Sell China

There needs to be an agency, India had NASSCOM that creates standards and offers guidelines for working in China, and in fact becomes the voice of China. Each of China firms has to answer the same questions about Intellectual Property Rights, Infrastructure, language, number of graduates, etc. There needs to be a coordinated China (CCIIP?) response that allows firms/software parks to present their differentiators, instead of spending 75% of their time talking about why China. I found that the software parks competed with one another and there was not a consolidated view of China that emerged. Provincial interests outweighed a consolidated story.

2. China Global Outsourcing Needs an Event

For India it was the Y2K event that initiated planning in 1995. India took over projects that Westerners did not want to do, freeing up existing resources to work on more strategic projects. Once the offshore firms established a presence they were able to understand business cultures and “raise their hands” as new projects, or modifications to existing ones were planned. This enabled the Indian offshore industry to take off. China has a similar opportunity with the number of Westerners who are retiring in the next few years. No one is learning the mainframe programming languages needed to maintain operations. While everyone wants to do the exciting new technologies of java and .net, mainframe skills are at an inflection point. Training people on the older technologies, and giving the global market relief from the number of people who are leaving the marketplace is an opportunity that offers an opportunity that China can make into their “event”.

3. Risk Mitigation and Quality are Keys

Very few firms we met, replied intelligently when I asked about 'transition processes', 'governance processes' and 'quality processes'. Without an investment in learning these key processes, along with sound Business Continuity Strategies and Disaster Recovery procedures, China will never become a real player in the global market for outsourced ITO/BPO services

4. **Language is Still an Issue**

Language is still an issue, while many Chinese that we met speak English, few understood/comprehend it. Comprehension is a key. I am sure this skill can be learned but it will still take some time

5. **Business Acumen**

– while English language may be learned, US/UK business methodologies, GAP, SAS70 and regulatory/audit requirements need to be learned. The Patriot Act, EAR, ITAR and other legislation, HIPPA, Solvency II, Basel II, etc have to be learned.

6. **Chinese Culture is Different Than US/UK Culture**

Chinese Culture is different than US/UK culture. We spend at least 2 days teaching about other cultures (for example India) before we implement an offshore program. I have not seen a developed Chinese Cultural Difference Class for Westerners, and consider this a requirement.

7. **Another Question/Observation is About Scale and Desire**

The other question/observation is about scale and desire. The largest firm we met was Neusoft, with 19,000 employees. Now it is a given that firms that need to outsource are not looking for 19,000 employees, but scale implies success, capability and growth. When we break down Neusoft we see 70% of capacity going for domestic consumption and 30% going for the Japanese/Korean market, leaving no more than 1,900 employees across multiple technologies for services in the US/UK market. There a lot of 3rd and 4th tier Indian/Filipino firms in this category, why would anyone choose China? With so much of the available capacity going to domestic services, and with the Chinese economy growing, do the Chinese firms really want to compete with and have the sustainability of working in the US/UK for the long term? This question needs to be answered or we are increasing risk in a risk averse marketplace

8. **Population Concerns**

Population Concerns – while China has a strong population the question of long term sustainability of population advantage should be addressed. With the single child policy and the recent natural disasters there has been concern expressed about a decreasing Chinese population over time, and therefore the non-sustainability of outsourced services.

9. **'Build It and We Will Come', Especially if They Are Cheaper.**

The firms we talked to felt that 'if they build it we will come', especially if they are cheaper. No one in the Global Market/USA/UK wants 'cheap'. We require and need low cost with quality in a de-risking environment. China seems to add risk. Most China firms do NOT understand process, rather they ask for a project and they will subsequently prove themselves. It is too risky from a corporate standpoint to do projects this way. I used Hyundai as an example of how to build a brand- Hyundai arrived in the USA 10 years ago with a cheap car. They were told that Americans wanted an inexpensive car. Their cars were considered to be of inferior quality and cheap. Americans want low cost (in the ball park) but with quality. Hyundai came back with the best warranty in the business 10 years and 100,000 miles along with higher quality cars. Today they are a brand in the USA. China needs to educate and train its population on process and quality, as India did with ITIL and CMM, in order to establish itself as a brand.

10. China Compared to India

Gartner Outsourcing Rating China Vs. India October- 2009		
Criterion	China	India
Language	Fair	Very good
Government support	Very good	Excellent
Labor pool	Good	Excellent
Infrastructure	Very good	Good
Educational system	Good	Good
Cost	Very good	Very good
Political and economic environment	Good	Very good
Cultural compatibility	Fair	Good
Global and legal maturity	Fair	Very good
Data and intellectual property	Poor	Good

Source : Gartner, Analysis of India China as an Offshore Services Location

11. AND the Intellectual Property (IP) Issue

With Google and Apple in the news, and the threat (perceived and real) of Chinese government officials being able to collect confidential information off of cell phones and computers, there needs to be an answer to security and data protection. Regulated industries like Financial Services and Insurance need to be able to show their customers and regulators that the data is controlled, or risk losing their licenses to do business. This has been heard before but it is a critical issue.

In Summary

China is growing as a world business entity. The collective pent-up energies of the world's most populous nation are now being channeled into what is probably the most intensive period of economic development in the history of human kind. And all expert observers agree that this is not just some short-term, unsustainable boom cycle. It is instead an epochal shift in the global balance of power.

With a population of more than 1.3 billion, China boasts greater human resources than any other country in the world. And, increasingly, this population is highly educated. The number of people in China with a college education quadrupled from 2001 to 2005 and continues to rise sharply. China currently boasts 600,000 engineering graduates—more than India (400,000) and the United States (70,000) combined. China also produced 3,000 computer science PhDs in 2007.

As that number continues to climb upwards, China will have the world's greatest supply of trained IT professionals. This will allow China's outsourcing industry to scale up to meet demand and develop necessary expertise in key vertical market, while at the same time maintaining the downward pressure on pricing that accompanies an abundance of supply. Anyone considering outsourcing or looking to diversify their outsourcing locations should consider China.

Marty Pine is a recognized thought leader and an internationally known Global Business Services Professional who has worked as a senior executive in customer, provider and advisor companies.

As an expert in BPO / ITO / KPO and “the Office of the Future”, Marty has been an innovator in the use of internal and external providers to achieve operational process improvements, increased efficiency/productivity, and to drive operating units to meet cost management objectives

Marty has held a number of Senior Management and Advisory positions:

Marty is a frequent speaker at the Outsourcing Institute, Nearshore Nexus, Outsource World, World BPO / ITO Conference, World Sourcing Forum and other conferences. He also enjoys teaching MIS and Outsourcing as an adjunct faculty member at multiple universities MBA programs. Marty has also developed a web blog for the NYTimes and About.com on Outsourcing. <http://outsourcing.about.com/> He can be reached at mpine2@gmail.com